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CENTRALIZATION WITHIN THE DEPARTMENT OF DEFENSE(U) AIR  
FORCE LOGISTICS COMMAND WRIGHT-PATTERSON AFB OH  
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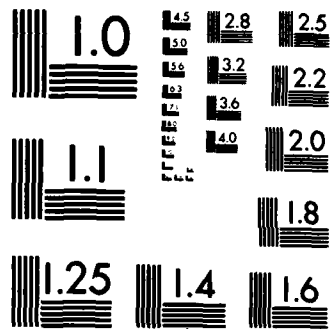
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20. ABSTRACT (Continue on reverse side if necessary and identify by block number)  This paper provides a corporate-level perspective on the tendency within the Department of Defense to seek reductions in peacetime operating costs through centralization of key functions and responsibilities. It draws on organizational theory, industry practice and the past experience of the Air Force to explain the controversy that surrounds centralization proposals, as well as their potential impact on defense operations. The root causes underlying the internal conflicts within DOD and the kinds of actions needed to assure equitable resolution are outlined. The Military Services have traditionally resisted		

centralization reforms that threaten the readiness and combat sustainability of their forces. Despite that opposition, those who are not directly responsible for wartime performance have pursued introductions of major management and organizational changes that could undermine military effectiveness. This study concludes that all points of view on these issues should be considered and differences reconciled in an objective manner.

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CENTRALIZATION WITHIN THE DEPARTMENT OF DEFENSE

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## Introduction

The decision to centralize or decentralize authority or functions within an organization is based on a number of complex factors many of which vary over time, are interdependent, politically sensitive and highly subjective. This paper focuses on such decisions within the Department of Defense (DOD), explores their nature, the challenges they have posed and the direction they may take in the future. In the process, current organizational theory as well as industry's experience in this area is examined. To set the stage, organizational structure is discussed in terms of the general principles associated with centralization and decentralization. The relationship between these concepts and the current DOD structure will form a basis for the conclusions drawn.



## Organizational Theory

Since the beginning of mankind, organization of one kind or another has been used to achieve man's objectives. As the task of these organizations grew in complexity so did their structure. The evolution toward more complex organizational structures, for the most part, has been gradual. There have, however, been dramatic changes in response to the needs that existed at particular points in time. The industrial revolution, for example, with its tremendous demands for large quantities of resources and greater scale of operations signaled a major change from the traditional family-owned business to the large, multiowner corporations in existence today. Technological developments since that time have enabled further refinement to organizational structure while at the same time driving the increased complexities with which the organization of today must cope. Advances made in telecommunications technology serve to illustrate this point. Without this capability, many of today's complex organizational entities could not function as they are currently structured.

Four stages have been identified so far in the life cycle of an organization, each more sophisticated and responsive to greater task complexity. These consist of (12:395):

Stage I - A small owner-operated concern.

Stage II - Formal organization structure complemented by a staff of professional managers.

Stage III - Large, multi-unit organization with a general headquarters and decentralized divisions.

Stage IV - Similar to Stage III organization, but grid or matrix structure is applied to manage product complexity and geographical diversification.

Most of the 500 largest companies in the United States fall under Stage III not because of their size, but because of their diversification (19:72). The organization of DOD generally fits the same category in that centralized control and coordination are exercised by the Secretary of Defense while the Military Departments are responsible for decentralized operations.

### Contingency Theory of Organization

One explanation for the phenomenon of organizational change is offered by the contingency theory of organization. Founded in the belief that no one management style is best suited for all situations, this theory basically contends that organizational structure is a function of the environment in which it must operate

and the demands it must meet. It follows, therefore, that the internal structure of an organization should be adapted to changes in the external environment. Some parallels between the nature of an organization and its environment have also been drawn. A most interesting finding in this area is that "a decentralized structure of authority is more appropriate for relatively dynamic environments, while those organizations operating in relatively stable environments tend to adopt a centralized structure of authority (18:631)." The implications of these and other related findings to the organization of DOD will be explored later in this paper.

#### Centralization Within Organizations

Centralization of authority within an organization exists when the decision-making process for execution of operations rests near or at the top of the management hierarchy. When that authority is relinquished to subordinate levels within an organization then decentralization is considered to have taken place. The evolution of organization discussed earlier clearly shows that centralized management in its pure form is limited to the initial stage of growth.

As organizations evolve in complexity and size, it becomes increasingly difficult to maintain absolute control over all aspects of their operation. At some point, therefore, it is

inevitable that growth forces top management to delegate responsibility to lower levels of the organization. The degree to which authority is decentralized within an organization is inversely proportional to the centralized control that exists. Thus, while ultimate authority is implicit at the top of the management hierarchy, selected functions and decisions may be transferred to lower levels or subordinate units within the organization.

In a decentralized organization, each organizational element is relatively independent, but integrated through a corporate system of centralized policies (7:244). Since the extent of centralized management varies depending on the autonomy given to units within an organization, a number of options are open to management in selecting an organizational structure that meets its needs. The decision concerning the degree of decentralization that best fits a particular organization depends on a number of factors, each of which has unique advantages and disadvantages under certain situations. The tradeoffs involved and their effect on selection of an ideal organizational structure will be discussed next.

#### Advantages of Centralization

Central control over the decision-making process offers a number of widely accepted advantages which can substantially

improve organizational effectiveness. Under the wrong conditions, however, opposite results will occur. Major benefits of centralization include (6:13):

1. Maximum Conformity and Integration. All decisions are made at one point thus assuring balanced functional perspective.
2. Potential for Better Decisions. Top managers are generally more experienced, proven executives. Their position in the organization provides broad perspective thus reducing the chance of suboptimal decisions.
3. Maximum Utilization of Economy of Scale. Allows pooling of common, but specialized resources and increases their utility to the entire organization at an overall reduction in total cost. A single large installation, for example, needs far fewer people and resources in management technical support, operations, and planning functions to accomplish the same workload carried out at several smaller installations.
4. Strong Leadership Control. All operations of an organization are directly under the decision-making influence of top management.

## Advantages of Decentralization

Many of the benefits of decentralization tend to be corresponding limitations of centralization. The reverse is true in that the related advantages for centralization are often lost through decentralization. The advantages of decentralization include the following (7:245):

1. Quicker Decisions. Problems can be resolved at or close to their source and need not be referred up the hierarchy for corrective action.
2. Greater Flexibility and Tactical Mobility. Actions can be taken consistent with the needs identified in the immediate environment and resources applied without regard to total requirements of the organization.
3. Better Decisions. Closer proximity to the problem tends to increase the information base of the decision-maker.
4. Increased Subordinate Initiative and Incentive. People tend to be more productive when they have a high degree of individual freedom and control over their jobs.

5. Improved Controls and Performance Measurements. Costs can be related to specific outcomes achieved and directly traced to units of the organization.

6. Increased Competition. Parallel units can easily be compared in terms of resource utilization and productivity even when intangible products or services are involved.

7. Executive Development. The opportunity to assume control over specific areas of responsibility involving the entire operation of an organizational unit rapidly sharpens corporate-level management skills.

8. Redundant Capability. When critical functions must be accomplished under conditions of high uncertainty, the probability of failure is significantly reduced when other units can perform the same task.

#### Decision Variables

Management practice and research studies have identified a number of conditions that determine whether centralization or decentralization is better suited for an organization. Since these variables are situational in nature, changes in particular circumstances should be periodically assessed to assure that

the appropriate degree of centralization is maintained. A list of these independent variables and a brief illustration of each follows (6:15):

1. The Purpose and Goals of the Organization. Certain organizations, such as universities, are required to maintain a power-sharing structure based on decentralization. Conglomerates normally are forced to decentralize more because of diverse product lines than organizations committed to one product.

2. The Knowledge and Experience of Top Managers. The more capable top-level managers are than their subordinates, the greater is the risk that decentralization will lower organizational performance.

3. The Skill, Knowledge and Attitudes of Subordinates. The lower the quality of these characteristics, the higher is the risk that decentralization will lower effectiveness of the organization.

4. The Size of the Organization. Large organizations force delegation of authority to keep organizational processes functioning.

5. The Geographical Dispersion of the Organization. The more dispersed an organization is, the more difficult it is for top management to make decisions related to their activities.



6. The Technical Complexity of the Task. As tasks become specialized and sophisticated, operational decision-making related to these tasks must be delegated, of necessity, to functional experts.

7. The Time Frame of Decisions. Where quick, on-the-spot decisions must be made, the authority to make them must be delegated. Decisions unconstrained by time can be referred to higher levels.

8. The Significance of Decisions. When minimal cost impact is involved, a decision should be delegated. Those of greater consequence should be made by the individual in charge.

9. The Requirement for Subordinates to Accept and be Motivated by the Decisions. Letting subordinates participate in or actually make decisions is recognized as an important means of gaining their acceptance, especially when subordinates must be relied upon to implement the decision. In such cases greater delegation of authority is warranted.

10. The Status of Planning and Control Systems. If clear-cut goals and objectives exist, decisions should be decentralized to lower levels.

11. The Status of Management Information Systems. Individuals with the most accurate and current information on a problem

should make the decision. Traditionally, this variable has favored decentralization. Advances in ADP capability, however, now tend to support centralization.

12. The Conformity and Coordination Required in the Tasks of the Organization. Precise integration of diverse activities can be accomplished easier through one central point such as the centralized function of production control.

13. External Factors. It is normally easier to decentralize decisions relating to internal operations than those dealing with groups outside the boundaries of the organization.

### Industry Experience

Within American industry, organizations are generally decentralized because managers at the lower organizational levels are more technically qualified to make operational decisions. In most cases, these decisions must be made quickly to maintain the production flow. Unstructured decisions involving substantial financial and personnel resource commitments tend, on the other hand, to be centralized. These decisions are retained by top management because of their cost significance and because they serve as basic controls for balancing the total activity of the organization (6:18). While a strong case can be made for both centralization and decentralization, especially when organizational needs conflict or are unclear, a growing trend

toward decentralized management in large, complex organizations is evident within industry. This trend is attributed in part to a desire to achieve the responsiveness and flexibility that has long marked the smaller, more personal organization (5:12-16). Some of the more interesting conclusions reached as a result of reviews of various segments of industry follow:

1. A recent survey of large industrial corporations concluded that as operational decision making is moved up in the management hierarchy and further away from the center of technical expertise, performance of operational units is likely to decrease because decision makers are too distant from actual problem areas (3:17).

2. A study of selected manufacturing firms revealed that increased success in highly competitive and uncertain environments can be achieved through a more decentralized structure (12:128).

3. Successful diversified multi-national corporations have found that decentralized, geographically tailored control enhances adaptability to the unique environments existing at the operating level (2:15).

4. Major banks have concluded that uniquely tailored services to diverse customers in a variety of marketplaces can only be provided through decentralization (14:153).

5. Cost/performance consciousness improves when direct budget responsibility for key support functions is assigned to user managers (20:60).

6. Management by exception rather than direct control has been successfully applied within large corporations in the food industry. Changes are dictated when exceptions occur too frequently. Faster decision-making through decentralized management has reduced commitment time to manufacture new products by as much as one month compared to fifteen months in more centralized firms (9:1).

7. Individuals rather than institutional research groups at large universities or corporations have discovered more than half of the significant inventions of the twentieth century (11:378).

Although there continues to be a wide diversity of views on the subject of centralization, a general consensus appears to be taking shape. On the aggregate, the evolution of organizational change during the 1900s suggests that the industrial revolution and its implicit advocacy of economy of scale operations (and therefore centralization) is slowly but surely giving way to the need for more flexible organizational structures. Some penetrating thoughts on the kinds of changes our society has been coping with for some time, what we can expect to encounter in the future, and the significance of decentralization as a potential management solution to our problems are addressed in more detail in Appendix A.

## Evolution of Armed Forces Organization

A general historical perspective of the Armed Forces of the United States appears to yield some basis for concluding that the contingency or situational theory of organization has merit. During the colonial days, for example, the continental army was essentially a land-based force employed within the confines of the North American landmass. The Navy was similarly limited to engaging the enemy in coastal waters, the sea lanes and other ocean areas. This dissimilarity in combat environments may very well have produced the separate and independently staffed organizations later to be designated the Department of the Army and Navy. Although history shows, through the establishment of the Marine Corps, that gradual organizational changes took place in recognition of specialized joint force requirements, it did not become evident until World War I that unified and joint military operations held the key to successful settlement of global conflicts.

With the development of the industrial society and its by-product of high technology growth, it was only a matter of time before an organization would be formed to take advantage of the combat capabilities of aircraft and their unique environment. It was also natural that such an organization, as had been done with the Marine Corps, be made a part of an existing parent Service. The Army Air Corps served in such a capacity until the experience of World War II clearly dictated a need for change. The significant contribution of our air forces to the defeat of the Axis

powers eventually led to formal establishment of the Department of the Air Force. More importantly, however, the countless World War II experiences with armed forces interdependence involving command, logistical and tactical units at all levels and theaters resulted in Congress enacting the National Security Act of 1947 (21:14). Under this act, the Army, Navy and Air Force were merged into the Department of Defense and placed under the direct control of a Secretary of Defense. This centralization of responsibility and authority is still in existence today.

### Struggle For Control

The designation of a Secretary of Defense proved to be the first of a number of steps that would be required to make the defense department a cohesive and effective operating entity. Each of the four Services<sup>1</sup> had been given the responsibility for providing logistical and operational support for its own forces. And each maintained control over the resources needed to accomplish its mission. In a sense, each Service was fully decentralized with the Secretary of Defense and his staff, the Office of Secretary of Defense (OSD), acting as the filter of a funnel through which the appropriation requests of the Services were processed to Congress and, in turn, allocated among the Services upon approval.

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<sup>1</sup>Within the Department of the Navy, the Marine Corps is a separate Service but reports to the Secretary of the Navy.

OSD's authority to control allocation of funds was quickly augmented with other forms of control. Uniform policies and standardized procedures in the form of DOD directives began to proliferate as did the systems needed for their enforcement. Despite these first and second order controls, the Services continued to do business in isolation as they had been conditioned to do prior to the establishment of DOD. Under these conditions, Perrow's third order controls for shaping the premises of decision-making would not have any effect for quite some time (15:13). What is clear, however, is that despite a common goal of providing for the national defense in the most efficient and effective manner, OSD has struggled with the Services over how that goal is best achieved.

#### Waste and Unnecessary Duplication

Since the early 1900s, internal and external pressures have been brought to bear on the federal government and particularly the military establishment to become more efficient. These efforts sought to achieve the economies of scale inherent in very large organizations. Thus, it came as no surprise that the original National Security Act enjoined the Secretary of Defense to take appropriate action to eliminate unnecessary duplication and other waste in such support functions as procurement, supply, transportation, storage, health and research. It was not until 1958, however, that the McCormack-Curtis amendment to the Defense Reorganization Act empowered the Secretary of Defense to establish a

single agency or other similar organizations, as appropriate, to carry out any supply or Service activity common to more than one military department (10:6714). These functions could only be transferred to a Defense Agency if such action resulted in more effective, efficient, and economical operation and eliminated duplication within DOD (10:6693). With this legislative green light, the race to establish agencies under the direct control of OSD had begun. Any Service activity common to more than one Military Department, with the exception of those considered to be major combatant functions, were now fair game for centralization or consolidation beyond the Services' sphere of influence.

### Defense Agencies

The drive to improve efficiency, economy and effectiveness within DOD took a number of forms ranging from assignment of a single manager for a particular function to a lead Service supporting all DOD activities, on one hand, and the establishment of separate Defense Agencies beyond Service control on the other. A chronology illustrating the nature and frequency of key centralization actions is contained in Appendix B.

Control over many aspects of strategic services, such as communications, intelligence and wholesale logistics support of spare parts, petroleum, oil and lubricants (POL), food and maps, has been centralized in Defense Agencies. Although the Services continue to maintain control over the tactical and retail



functions in these areas they are without a doubt dependent on the agencies for uninterrupted, sustained operating support. Since 1958, 11 of the 12 agencies that currently exist have come into being.<sup>2</sup> This growth in Defense Agencies is illustrated in Appendix C. Their combined budget had grown to \$15 billion by fiscal year 1978 and substantial growth is anticipated as greater and greater efforts are made by OSD toward further centralization (1:vi). A case in point is the Defense Logistics Agency (DLA). Established in 1961 as the Defense Supply Agency, DLA assumed among other things the wholesale responsibility for commercial-type, common use consumable items used on defense weapon systems to eliminate duplicate item management among the Services. The Services retained the technical/engineering responsibility for these items, none of which were mission critical in nature.

By 1973, the Services had developed and implemented integrated materiel management for the remaining weapon-critical consumable items to further eliminate duplication. Under integrated management procedures, a lead Service supports all DOD-wide users of an item in similar fashion as the one item/one manager concept.

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<sup>2</sup>The recommendations of the first Hoover Commission in 1949 led to the establishment of the General Services Administration (GSA). This agency was assigned the responsibility to provide supplies to the federal government in the most efficient and economical manner. The Secretary of Defense was authorized to exempt the Military Department from GSA support. In 1955, the second Hoover Commission recommended the establishment of a DOD supply agency.

This capability is widely recognized as a satisfactory alternative to agency management. In fact, a return of all DLA managed items to the Services could free an extra layer of management, mate item management and engineering responsibility for critical weapon system parts and make the Services self-sufficient for critical weapon system parts (13:41). Instead of pursuing such alternatives, OSD appears determined to increase agency responsibilities by transferring these critical items to DLA despite the strong and uniform objections raised by the Services and the Joint Chiefs of Staff (16:1). This drive toward increased centralization at any cost is evidenced in a variety of other support areas.

#### View At The Top

During the hearings before the House of Representatives Armed Services Special Subcommittee on Defense Agencies in 1962, Secretary of Defense McNamara expressed his belief that there is no one ideal organization for DOD. Such an organization was considered too static and inflexible to respond to an "age of increasingly rapid technological, international, and strategic change" (10:6690). Further, he advocated a pragmatic, evolutionary approach to Defense organization--one responsive to concrete problems of the day. His formula for organizational change called for making such decisions not on abstract assumptions but rather on objective evidence that such change would lead to:

1. Better support to combat forces, thus increasing their effectiveness.

2. Improvements in the decision making process, especially reducing the time lag.

3. Reduction of undesirable duplication and promotion of efficiency and economy (10:669).

Although Secretary McNamara was reluctant to specify an ideal organizational structure for DOD, he did point out that the Defense Reorganization Act of 1958 made it quite clear that the Secretary of Defense would be responsible for the centralized formulation of policy and the Secretaries of the Military Departments for the decentralized conduct of operations insofar as those operations fell within their departments.

Secretary McNamara's views remain valid today and are generally shared by Congress and the Services. Why then has there been such conflict over centralization initiatives between OSD and the Services? Several factors must be considered before that question can be answered.

### The Decision-Making Environment

The unprecedented growth in technology during this century has led to more sophisticated and complex weapon systems. The cost to acquire and maintain these systems over their useful

life has increased phenomenally. Despite these demands, congressional spending on defense programs since the 1960s has been cut drastically when compared to non-defense expenditures. In the process, Congress has put tremendous pressures on OSD to meet our national security needs in an effective and efficient manner. Centralization proposals which promise attractive cost savings are difficult to evaluate objectively in such an environment.

Compounding the situation is the very nature of the proposals themselves. Centralization decisions do not involve adding or subtracting tangible elements of existing defense programs. More subtly, a merger or consolidation of functions seeks increased economy through shifts to a theoretical optimum point of management. Within the organizational structure, this optimum point is normally higher in the hierarchy and out from under the control of decentralized units. Such shifts are usually not viewed as controversial outside the organization within which they are made. Within the organization, however, the opposite is normally true. The benefits attributed to organizational change in general and centralization actions specifically go unchallenged largely "because the men who make the decisions--at the top--want to believe in them and have the power to force acceptance within the organization (11:3)."

## The Product

Unlike the private sector, the product provided by DOD is hard to measure in terms of whether it will meet the stated requirements. While it is true that defense forces and their related support resources are tangible assets, one can never be certain whether these are sufficient to meet wartime demands or if we are organized to employ them successfully. As evidenced by conflicting views on the adequacy of our defense posture, it is clear that such a determination will always be highly subjective and, to some degree, predictable when vested interest is involved.

Centralization proposals have traditionally been viewed and evaluated using two primary measures of merit. The first measure--foremost from an OSD standpoint--is the dollar impact. This can be readily measured in precise costs and savings for peacetime operations. The second measure--foremost from a Military Service standpoint -- is the readiness impact. Short of actual war, this measure of merit is virtually impossible to define in terms of forecasting organizational failure or success. It should not be difficult to understand then why the Services, who must successfully wage war, are reluctant to accept centralization proposals that offer peacetime economies and uncertain readiness implications. In this context, transfers or consolidations of vital combat support activities to Defense Agencies

are viewed by the Services as unacceptable alternatives that will eventually undermine command and control of military forces during wartime operations (16:1).

### Centralization Trend Within DOD

The direction of organizational change within DOD has steadfastly moved toward more and more centralization. Moreover, the acceleration of centralization actions in recent years, especially the growth in Defense Agencies, seems to suggest that it is only a matter of time before a fourth Military Department will be established to provide common wholesale logistics support to each Service. A Department for Logistics would certainly provide the epitomy of economy of scale. The economics of such a monolith may be acceptable in terms of peacetime operations. Whether it would be responsive to the fluid and unpredictable demands of war remains to be seen. Certainly, no precedent for such a Department has ever existed in the history of mankind.

The closest parallel is, of course, the Defense Logistics Agency. That agency's dependence on the Services for technical support to carry out its mission is an acknowledged fact, as is the helplessness experienced by such an agency when emergency measures are required to resolve crisis situations. After all, only the Services have the information needed to determine the appropriate action that must be taken to reestablish supply support

after unexpected disruptions (e.g., normal acquisition practices are useless when the original manufacturer is out of business). Such situations tend to become the rule rather than the exception under combat conditions; and can best be resolved by the multi-mission depots of the Services.

Over the years, the Services' logistics commands have gained tremendous experience in interservice support. Automated data processing systems now make it possible, for example, to consider reassigning all item management responsibilities from DLA to the Services without reintroducing duplication of functions within DOD. While such an alternative to agency management was not in being when DLA was established, the capability for one Service to support all other Services for a particular item or function now exists in a number of areas and is continually being refined. As a result, it is quite possible that the pendulum may have swung, by necessity, too far toward centralization and that it is only a matter of time before it will swing back. The return of selected DLA functions to the Services will enhance wartime operations through increased flexibility and uniform control of key resources necessary to the successful conduct of war. The elimination of an extra layer of management, shortened lines of supply and communication, and a single manager responsible for logistics support should also reduce overall DOD operating costs (16:39). At a minimum, it would certainly be in keeping with the Defense Agency Review finding that "there appears to

be greater emphasis on peacetime economy and efficiency among the Agencies than concern for wartime effectiveness (1:viii)."

### The Concept of Critical Mass

Changes in organizational structure involving centralization or consolidations of functions have, to a large extent, been based on the advantages associated with the principle of economy of scale. While economic theory and empirical data substantiate this concept, very little consideration--if any at all--is given during its practical application to the identification of the point of optimum effectiveness and efficiency. Evidence exists, however, that some efforts have been made to quantify this critical point. Studies of delivery systems for police, fire, recreation, schools, and libraries, for example, show that these systems are most efficient when serving areas of about 25,000 or smaller (17:379). Hughes defines this point of critical mass as the smallest combination of brainpower, labor and capital necessary to achieve a desired goal (11:7). Beyond this point, the inefficiencies of bigness overcome the economies.

The lessons learned from industry in this regard are particularly significant. In the case of chain supermarkets, centralization appears to have peaked at about seventy percent of sales and local independents have started to recapture the market. According to the Wall Street Journal, locals cater to local buyer taste better than major chains, such as Safeway and A&P, whose



regional market surveys have failed to match the insight of the owner in the store (11:2). Major firms in the industry are now responding to this challenge by restructuring their organization to accommodate decentralized management. General managers are now responsible for less stores and must live in the area for which they are making decisions to gain more familiarity with the competition and how best to deal with it. More responsibility is also being allocated to individual store managers to convey a sense of control comparable to that of the small store owner (8:12).

Another case in point is Britian's beer industry. During the past decade, it became apparent that the economies of scale from centralized production of national brands would not materialize as expected. Instead, second-tier brewing firms that targeted their products to relatively small geographical areas proved to be much more profitable than the bigger UK brewers. Surprisingly, in addition to a lack of sensitivity to regional market demands, failure was also attributed to the fact that the increased distribution costs associated with overcentralized operations had completely offset the economies of large-scale production (4:31).

While the impact of centralization within DOD has not been as dramatic, an evaluation of Defense Agency performance appears long overdue (1:viii). Such an examination should focus on identifying the critical mass required to meet the wartime needs of the Military Services.

## Conclusions and Recommendations

It is clear that the efficient organization is both centralized and decentralized. Further, the extent of centralization is a major factor that can significantly influence whether an organization will fail or succeed in achieving its objectives. A review of DOD's mission, existing organization theory and industry experience indicates that the overall DOD organizational structure is sufficiently flexible to accommodate the conflicting demands imposed on it. The peacetime drive toward economies of scale and the wartime need for self-sufficient, decentralized operating units will continue to challenge management at all organizational levels until an ideal balance is struck between these two competing forces.

Since the need for national security will always exceed the need for peacetime economies, the ideal DOD organization would appear to favor a decentralized management structure because of its demonstrated superiority in coping with the highly complex and uncertain environment encountered during war. A look at today's organization structure reveals that significant functions have been, and continue to be, placed by OSD under the centralized control of Defense Agencies to eliminate duplicate management. These support functions have traditionally been under the decentralized control of the Military Departments who view many of them as critical to the accomplishment of their mission. A need

exists, therefore, to consider returning these functions to the decentralized control of the Services. This is particularly true since the conditions in existence at the time Defense Agencies were established have changed considerably.

The Services now have demonstrated the capability to manage these essential centralized functions, for which they have always had the technical responsibility, under a single manager, lead Service concept. With this available capability, duplication of management is no longer a factor. In fact, decentralization of these functions could produce significant benefits, including increased combat self-sufficiency of operating units and greater peacetime economies created by the elimination of unnecessary layers of management. In view of this, it is recommended that the Secretary of Defense initiate action to reevaluate the adequacy of the existing organization of the Department of Defense. This study should be conducted by a team of industry, defense and academic experts to enhance objectivity. The study should examine the external influences on DOD, determine the ideal organizational structure to deal with these forces and develop a mechanism for maintaining equilibrium between the ideal and actual defense organization.

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## CENTRALIZATION TRENDS

The following excerpts were taken from a speech on the new economic and political order of the 1980s, delivered by Mr John Naisbitt in San Antonio last year. Mr Naisbitt is Senior Vice President of Yankelovich, Skelly and White and publisher of the Trend Report. His views on centralization within the American Society are thought provoking and germane to the issue.

1. "It is clear that the post-industrial society is an information society. . .the strategic resources in the industrial society was capital; the strategic resource in the post-industrial information society is knowledge and data. . .Because the strategic resource is now in our heads, access to the system is much easier. Not only will we see an impressive increase in the creation of new small firms, but if large institutions are to survive, they will restructure to encourage entrepreneurial activity within their institutions."

2. "There is more decentralization than centralization taking place in America--for the first time in the nation's history; the power is shifting not only from the President to the Congress, but--less noticed--from the Congress to the states and localities."

3. "In the '50s and '60s, we began to celebrate ethnic diversity. . .In the late '60s, we gave up the myth of the melting pot. . .Now we recognize that it is our ethnic diversity that has made us such a vital, creative country . . . The phenomenon of the '70s was jurisdictional diversity. We have no national urban policy today because a (top-down, master plan) national urban policy is out of tune with the times."

4. "Proposition 13 has to be understood as having a lot more to do with. . .the referendum trend than. . .with the taxes. We never voted on those kinds of things before. . .It's part of this larger direct democracy."

5. "In America, the large, general purpose instrumentalities are folding everywhere. The early sign. . .the demise of Life, Look and Post the huge circulation, general purpose magazines nine years ago. There are now more than 4,000 special interest magazines being published in the United States, and no general purpose magazines."

6. "Two years ago, the National Association of Manufacturers and the United States Chamber of Commerce announced they were going to merge for all kinds of wonderful reasons, none of which was true. They were going to merge to survive. . .the Chamber has lately become much more responsive to the grass roots, and that may save it."

7. "The American Medical Association, another umbrella organization, is getting weaker as the groups within it--the pediatricians, surgeons, etc., and the county and local medical groups are getting stronger."

8. "A year ago, two big labor unions, the meat cutters and the retail clerks, merged to form a huge union--for survival. That's the dinosaur effect: they get larger just before they go under (We haven't noticed it, but there have been 50 mergers of labor unions in the last eight years)."

9. "These kinds of umbrella organizations are out of tune with the times, just as network television now is becoming. ABC, CBS, and NBC will be the Life, Look, and Post of the '80s and '90s. Network television will lose ground to new options: the incredible array of cable, video disks, and new special-interest networks. . .by the end of the '90s, the three big networks may have fewer than half the viewers they have today."

10. "The cross-over in politics came in 1976--a Presidential year--when the number of people contributing to special interest groups, like 'Save the Dolphins' exceeded the number of people who contributed to the Democratic and Republican parties combined. That trend is continuing."

11. "We have no great captains of industry any more, no great university presidents, no great leaders in the arts, civil rights, labor or politics. It is not because there is any absence of ambition or talent on the part of those who would be leaders. Its because we followers are not creating them. We are not creating leaders with much more limited mandates: closer to us and on much narrower bands. In the old Taoist model of leadership, 'find a parade and get in front of it,' we who would be leaders in America are finding much smaller parades--and many more of them."

12. " . .the computer will outmode the hierarchical system of organization. We had to have a hierarchy in order to keep track of everybody and what they were up to. Now with the computer to keep track, we can restructure to a horizontal organization of many small entrepreneurial groups. The pyramid has been outdated by the new technology."

13. "It's often mistakenly thought that Japanese workers are so productive because they perform like robots, even subservient to authority. The opposite is true. Unlike American workers, the Japanese are given enormous freedom to both plan and execute their work and solve problems alone without the help or interference of management."

14. "Fully 90 percent of Japan's industrial workforce is organized in work groups of 8 to 11 people. The whole theory is: the workers know their job better than anyone else, and given a chance, workers will be creative and self-motivated."

15. "When the Japanese use their techniques on American workers, the changes are astounding. The Japanese Matsushita Company, several years ago took over a Motorola plant near Chicago, and began to produce Quasar TV sets. The company retained 1,000 on-line workers, but dismissed half of the 600 supervisors and managers. Within two years, production doubled and the reject rate of sets dropped from 60 percent to 4 percent."

16. "Our workers are not stupid or lazy. They, like everybody else, want a chance for more personal satisfaction."

While the above perspective targets on the American society in general, the following remarks made by Bob Johnston, Federal Marketing Manager of Floating Point Systems, Inc., specifically focus on the government sector. Mr Johnston's views, published in the March 1981 issue of Government Executive, are shared by many in private industry. Key extracts from his article, "Riding the Federal Bronco," follow:

1. "A by-product of the Washington mentality is a condition that worships centralization of authority and control through eternity. The Washington answer to any problem, large or small, is more direct and centralized management control with accompanying regulatory bureaucracy."

2. "When the Hoover Commission examined waste in Government during the fifties, it uncovered what was in its view great waste of taxpayers' money because every agency rented its own space, bought its own supplies, and disposed of its own surplus material. The Hoover Commission reasoned that a single centralized agency with the charter to buy all standard supplies, control all Government real estate, and manage all surplus inventory should save the Government millions and millions of taxpayer dollars just through volume discounts from Federal suppliers. This premise resulted in the foundation of the now infamous General Services Administration."

3. "Through the years, GSA has promulgated procurement rules and regulations. . . known as 'the procurement maze'. . . so complicated and confusing that only large companies can afford . . . to do business with the Federal Government. In addition, GSA has become so unwieldy and unresponsive to the needs of the Government agencies that GSA was created to serve, that many agencies now have more employees assigned to getting around GSA than they previously had assigned to buying the services and supplies GSA is supposed to provide."

4. ". . . seriously doubt that the exorbitant cost of operating GSA with its 37,000 employees and its more than two billion dollar overhead cost is offset by the savings realized through centralized procurement that was envisioned by the Hoover Commission."



5. "If the Reagan administration is to be successful, it will have to start by chipping away at the edges of an obvious bureaucratic blundering agency while at the same time trying to identify what part of this rock is necessary foundation and what part is gingerbread superstructure."

6. ". . .the Reagan Administration, with the help of Congress, should examine the legislation that created GSA and then use good business procedures and judgment to determine if the cost of operating GSA is justified by the cost savings derived from GSA's centralized management and control of Federal assets."

An alternative to consider is whether user agencies should be "charged with the responsibility of buying the services and supplies needed by their agencies in a cost-effective, prudent manner with a minimum of red tape and regulation. In short, the responsibility and accountability for performing should be as close to the action as possible."

## CHRONOLOGICAL SEQUENCE OF EVENTS\*

26 July 1947 - The President signed the National Security Act creating a confederation of three Military Departments presided over by a Secretary of Defense.

Late 1947 - The Munitions Board assigned single Service procurement responsibility for lumber and allied products to the Army Corps of Engineers.

December 1947 - The Munitions Board assigned single department procurement responsibility for photographic supplies to the US Air Force.

1948 - The Munitions Board gave the Army procurement responsibility for motor vehicles.

4 February 1948 - The Naval Air Transport Service and the Air Transport Service were consolidated into the Military Air Transport Service.

19 February 1948 - The Armed Services Petroleum Purchasing Agency was established to buy all petroleum and petroleum products for the Armed Forces.

January 1949 - The Munitions Board made the Navy's Bureau of Supplies and Accounts responsible for the purchase of paints and allied products for all defense agencies.

30 June 1949 - Congress created the General Service Administration.

January 1950 - The Air Force and the Army concluded a "cross Service" agreement to provide mutual common item supply support in overseas areas where one or the other had general responsibility for operations.

18 June 1952 - The Armed Services Textile and Apparel Agency was created in the DOD to purchase clothing, footwear and textiles for the Military Services.

24 June 1952 - The Defense Cataloging and Standardization Act created a Defense Supply Management Agency to develop a single catalog and supply standardization program.

\*NOTE: The accelerated rate of proliferation of centralization actions and proposals from 1971 to present.

24 July 1953 - DOD assigned single management for petroleum to the Navy.

29 June 1954 - The Armed Services Medical Procurement Agency was established.

5 July 1955 - The Interservice Supply Support (ISS) concept was created by DOD Directive 4140.6 for procurement of common items used by more than one Service.

4 November 1955 - DOD Directive 5160.11, "Single Manager Commodity Assignment for Subsistence," was the first single manager assignment. The Secretary of the Army was given authority and responsibility to provide subsistence for all the Military Services. On 3 May 1956, the Military Subsistence Supply Agency (MSSA) was established.

1 May 1956 - The Secretary of the Army was designated as single manager for traffic management within the US. The newly created Military Traffic Management Agency was to consolidate the four separate transport management headquarters. The agency would eliminate duplication among 15 regional offices scattered throughout the US.

4 May 1956 - The Army was established as single manager for the Military Clothing and Textile Supply Agency by DOD Directive 5160.15.

6 May 1956 - The Military Medical Supply Agency was established by DOD Directive 5160.16 with the Navy as a single manager. MMSA was activated on 1 January 1957 and became fully operational on 1 July 1957.

24 July 1956 - The Navy was formally established as a single manager in charge of the Military Petroleum Supply Agency by DOD Directive 5160.18.

December 1956 - The Air Force was appointed single manager for Air Transport Services for the Defense Department.

3 August 1959 - The Air Force was selected as the single procurement agent for common electron tubes used by all the Services. The assignment was to be fully implemented by March 1960.

10 November 1959 - The Army was designated as single manager for Military General Supplies, including housekeeping supplies, hand tools, etc. The Navy was designated to provide Military Industrial Supplies including hardware and related items.

12 May 1960 - The Defense Communication Agency was established consolidating the separate Army, Navy, and Air Force communication systems (DOD Directives 4600.2 and 5105.19).

16 May 1960 - The Army was designated single manager for military automotive supplies.

16 May 1960 - The Army was designated single manager for military construction supply to include such building materials and equipment as lumber and related wood products, plumbing and heating supplies.

1 October 1961 - The Defense Supply Agency was established to procure, manage, and distribute at the wholesale level certain supplies and related services common to the Armed Forces.

1 October 1961 - The previously established Commodity Single Managers were reassigned to DSA as Defense Supply Centers.

1 March 1963 - Defense Industrial Plant Equipment Center (DIPEC) was established to centralize information on DOD assets and requirements for plant equipment, and to assure responsive management of purchasing, redistributing, repairing and disposing of items of plant equipment.

10 July 1964 - The Assistant Secretary of Defense (I&L) named the Air Force single manager for the storage, reclamation, and disposal of DOD aircraft. Headquarters AFLC became the single manager operating agency.

3 October 1966 - The Integrated Weapon Support Management (IWSM) system was instituted. This system integrated and consolidated all common logistics support requirements and operations.

1971 - Using Communications Materiel Management Centralization Study as a platform, OSD staff proposed that all consumable items be transferred to DSA. Strongly opposed by Military Services. OSD established top level OSD/Military Department study team (Hugh Witt Group).

1971 - DEPSECDEF Packard, by 16 June 1971 memorandum, approved Witt study recommendations calling for assignment of weapons related items to the Military Services and commodity-oriented items to DLA or GSA.

1972 - Joint Conventional Ammunition Program Coordinating Group established.

1974 - Office of Federal Procurement Policy established by Public Law 93-400 to centralize the total Federal Government procurement policy making functions.

1975 - OSD proposed - JLC agreed to conduct DOD Materiel Distribution System (DODMDS) study of the structure of the total distribution system within DOD.

26 November 1975 - OSD, by DOD Directive 5160.65, designated Army as Single Manager for Conventional Ammunition (SMCA).

1976 - National Supply System Advisory Board established to develop single, integrated, government-wide system for acquisition and distribution of items.

12 October 1976 - DOD Task Order appointed DLA as the executive agent to establish a DOD Standard Warehousing and Shipping Automated System.

January 1977 - DSA was redesignated as the Defense Logistics Agency (DLA).

1 October 1977 - Phase I of SMCA was implemented.

December 1977 - Draft GAO Report: "DOD Aeronautical Depot Maintenance: A Single Manager is Needed," submitted to SECDEF and Service Secretaries.

30 October 1978 - ASD (MRA&L) published a modified task order which established a Joint Services program to develop and implement standard DOD warehousing and shipping automated system and appointed DLA as the executive agent.

July 1978 - Final JLC DODMDS report recommending DOD reduce its depot structure from 34 to 22 depots.

16 December 1978 - DEPSECDEF requested Military Services comment on a proposal to transfer all Service managed consumables to DLA.

April 1979 - OSD Materiel Distribution System (MDS), a review of the JLC DODMDS study, recommended wholesale distribution system be reduced from 34 to 26 depots.

April 1979 - Military Services and JCS nonconcurred on OSD proposal that would limit Service management to major end items and reparable.

May 1979 - ASD (MRA&L) requested that Defense Audit Service (DAS) evaluate the Services' responses to the OSD proposal to transfer consumables to DLA.

June 1979 - Centralization of Defense Contract Administration was proposed by OSD as a joint agency to provide for all field contract administration services.

24 July 1979 - ASD (SM&S) informed the Services that ARINC Research Corporation was tasked to review reparables management within each component and to propose needed improvements.

9 August 1979 - President Carter announced decision to establish an expanded National Supply System under the auspices of OFPP.

10 October 1979 - President Carter approved Public Law 96-83 extending life of OFPP and calling for development of a Uniform Procurement System (UPS). This system would also replace the National Supply System.

4 December 1979 - Secretary of the Air Force recommended to DEPSECDEF a joint policy review council approach to reorganizing contract administration in DOD.

1 February 1980 - Under Secretary of Defense memo proposing DCAS be realigned as a separate agency and a joint policy review council be established.

14 March 1980 - ASD (RD&L) memo recommending DCAS remain under DLA.

19 March 1980 - JLC established a permanent Joint Aeronautical Depot Maintenance Action Group (JADMAG) to develop and recommend policy and actions necessary to assure effective and efficient aeronautical depot maintenance in support of Service missions.

1 April 1980 - GAO publishes "Logistics Management Issues" report recommending more logistics consolidation and centralization--to include "designation of a single overall logistics manager in DOD"--as a management panacea.

May 1980 - Military Departments and JCS strongly opposed to DAS findings and implied conclusion that transfer of consumables would not jeopardize readiness.

12 June 1980 - OSD (MRA&L) forwarded to the Military Departments for comment a draft DEPSECDEF decision memorandum which modified the proposed transfer of consumables to DLA. Instead of losing all consumables, the Services retain field reparable, design unstable, classified and local manufactured items.

27 June 1980. JCS reaffirmed their opposition to the proposed transfer of consumables to DLA and emphasized that any realignment of management responsibilities that would reduce Service control in this area would surely have an adverse readiness effect.

8 July 1980. A joint agency agreement established a Federal Supply Management Advisory Council (FSMAC), chaired by GSA, to encourage government-wide centralization and standardization of the supply function.

September 1980. OFPP circulated for comment their formal proposal for establishment of a Uniform Procurement System.

14 October 1980. The DEPSECDEF advised OFPP that DOD nonconcurs with the inclusion of supply in the UPS proposals.

27 October 1980. OFPP submitted its proposal for a Uniform Procurement System to Congress without mentioning that DOD had nonconcurred with the inclusion of supply in the UPS.

21 January 1981. Comptroller General Staats forwarded a letter to Secretary Weinberger recommending he take quick action to achieve significant economies on a number of long standing defense logistics issues. All of the issues, except the proposed transfer of consumables to DLA, had been subject to prior GAO audit.

6 March 1981. Secretary Weinberger informed the GAO that the centralization proposals outlined in Mr. Staats' 21 Jan 81 letter are under consideration.

9 March 1981. The JCS issued a memo to the SECDEF on their concerns over the GAO's preoccupation with logistics centralization as a panacea for all DOD logistics management problems. The JCS asked that their views on individual centralization proposals be considered before action is taken.

24 March 1981. Secretary Carlucci directed OSD(MRA&L) to provide, within 90 days, an option paper on the establishment of a single manager for aeronautical depot maintenance.

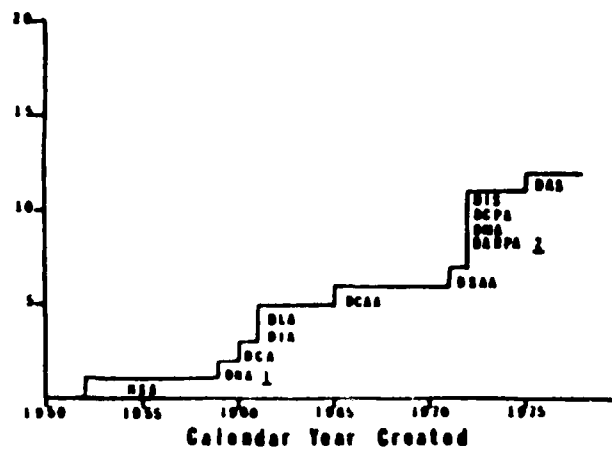
30 March 1981. Deputy Secretary of Defense Carlucci acknowledged that the JCS concerns over logistics centralization are valid and will be considered in the future.

7 April 1981. Acting ASD/(MRA&L) Stone formed a DOD Task Group to study the establishment of a single manager for aeronautical depot maintenance. The proposed study plan, however, virtually eliminated consideration of current joint service management improvements in this area.

23 April 1981. Secretary Carlucci transmitted a summary of the decisions made on 15 CBO and 15 GAO management proposals to the JCS, OSD staff, the Services and Agencies for comment. This memo also confirmed that option papers are to be developed on consolidation of supply activities (within 60 days), on centralized ammunition management (within 30 days), on a single manager for aeronautical depot maintenance (within 90 days) and on the consolidation of MSC and MTMC traffic management functions (within 60 days).



## TOTAL DEFENSE AGENCIES



1 DCA had its origin in the Armed Forces Special Weapons Project (AFSWP) founded in 1946.

2 DARPA was started as ARPA in 1958.

DARPA	Defense Advanced Research Projects Agency
DAS	Defense Audit Service
DCA	Defense Communication Agency
DCAA	Defense Contract Audit Agency
DCPA	Defense Civil Preparedness Agency
DIA	Defense Intelligence Agency
DIS	Defense Investigative Service
DLA	Defense Logistics Agency
DMA	Defense Mapping Agency
DNA	Defense Nuclear Agency
DSAA	Defense Security Assistance Agency
NSA	National Security Agency

Source: Report to the Secretary of Defense of the Agency Review, March 1979

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